

Credit cards are a great modern invention and are quick, convenient, and helpful in a wide variety of circumstances. However, teens can be especially vulnerable to credit difficulties and need to be cautioned about the pitfalls of credit cards. A credit card may seem like a "free ride" to many untried and unsuspecting young people and they end up accumulating a large debt long before they have the earning power to pay it off.

Around 6 million full-time college undergraduates now have credit cards. It doesn't matter that they have no income or credit history; card companies figure they'll get a job that can pay the bills. Parents don't have to cosign. In fact, you might not even know your kids have cards. But if they overspend, the card companies hope the parents will come to the rescue and pay the bill. Some firms even ask for parental income on the student's credit-card application.

It pays students who use credit responsibly to get a student card. They'll never get such easy credit again. But some students get so far into debt that they ruin their credit rating before they graduate. Two out of three undergraduates have at least one credit card and 27% of them have four or more cards according to a recent study by a national educational loan provider. The average credit card balance for undergraduates is \$1,879.

If your child gets a card, make sure he or she understands the significance of a clean credit history. Also explain why it's important to pay more than the minimum every month. The student who racks up a \$1,000 credit-card bill in the freshman year and pays only the low minimum each month will finish a bachelor's degree, a master's program, and still need three and a half years to pay off that freshman spending spree.

Credit card applications have been invading the mailboxes of high school students too.

HOW TO HELP PREPARE A CHILD FOR CREDIT RESPONSIBILITY

- ◆ Help teens set up a budget, open a checking account, and decide if or how credit cards can be used during young adult years.
- ◆ Consider various credit companies before acquiring a card. Read the contract carefully and talk with teens about terms and conditions found in the small print.
- ◆ Show teens what happens to a balance if only the minimum amount is paid monthly.
- ◆ Help them figure out how long it will take to repay the loan and what the actual cost of the item will be after all credit charges have been added.
- ◆ Explain that if he/she pays late or less than the minimum, he/she can be penalized with fees (up to \$30 per infraction) and a higher interest rate. Discuss what may happen when dealing with collection agencies.
- ◆ Keep a college student's credit limit low, \$500 to \$1,000, and instruct him/her to use the card only for emergencies. Spell out what is/is not "an emergency."
- ◆ Explain what the term "good credit rating" means, what it is used for, and why it is important to maintain one in today's economy. Discuss the consequences of a bad credit rating.
- ◆ Consider having the bills sent to your address so you can see they are paid on time.

◆ Tell your child to keep the card in a safe and secret place and to notify the card issuer immediately if it is lost or stolen.

◆ Recommend that students who choose to use credit cards limit themselves to one card and pay off the balance in full each month.

IF TEEN IS ALREADY IN TROUBLE

If your child is already in trouble, don't delay action:

Call your child's creditors before he defaults to avoid negative marks on his credit report. Ask them to lower interest rates or suspend new interest charges for six months. Get the new terms in writing.

If you decide to pay off the balance, ask the creditor to remove any penalty or legal fees and all negative marks they've put on your child's credit report. Before you hand over any money, get a letter confirming the agreed-upon amount is "payment in full" and that no further action will be taken. **Tip:** For help negotiating, call the nonprofit organization: Consumer Credit Counseling Services at 1-800-388-CCCS or visit Debt Counselors of America's web site at www.dca.org.

Consider a debt consolidation loan only if it will lower the interest rate, not just the monthly payment.

Check your child's credit report a few weeks later. If there are negative remarks, send the credit bureau copies of correspondence confirming your agreement.

Protect Your Child's Privacy:

Call 1-888-466-6936 for facts every concerned parent needs to know about protecting their child's privacy.



The Indiana Department of Financial Institutions,
Division of Consumer Credit has many other credit
related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

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a copy of any of the brochures listed or for further consumer
credit information.



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WARNING TO CREDIT CARD KIDS



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